CSSB

The Civil Service Superannuation Board

2007 Annual Report

For more information...

You may make an appointment to view any of the following at The Civil Service Superannuation Board (Board) office, Monday to Friday (except holidays) from 8:00 a.m. to 4:30 p.m.:

- A copy of The Civil Service Superannuation Act (Act) and all amendments
- The Annual Information Return submitted each year to the Pension Commission of Manitoba
- A copy of the latest Actuarial Valuation Report

Upon request, the Board will provide members, spouses or authorized representatives with detailed information and explanations regarding benefits payable in the event of a member's retirement, death, marriage separation, or termination of employment.

For further member information, visit our website **www.cssb.mb.ca**

The Civil Service Superannuation Board

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Winnipeg MB R3C 3T1

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Cover photo of Pisew Falls courtesy of Travel Manitoba

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Letters of Transmittal

May 14, 2008

His Honour the Honourable John Harvard, PC, CMM
Lieutenant Governor of Manitoba
Room 235 Legislative Building
Winnipeg MB R3C 0V8

May It Please Your Honour:

As Minister Responsible, I have the privilege of presenting for the information of Your Honour, the 69th Annual Report of The Civil Service Superannuation Board for the calendar year ended December 31, 2007.

Respectfully submitted,

Honourable Greg Selinger
Minister of Finance,
Minister Responsible for
The Civil Service Superannuation Act

Manitoba

May 12, 2008

Honourable Greg Selinger
Minister of Finance,
Minister Responsible for The Civil Service Superannuation Act

Sir:

In conformity with the provisions of The Civil Service Superannuation Act, I am pleased to forward to you, the Minister Responsible for The Civil Service Superannuation Act, the 69th Annual Report of The Civil Service Superannuation Board.

This report covers the period January 1, 2007 to December 31, 2007 and includes a review of the Board's activities for that period as well as the Report of the Auditor General and attached audited financial statements for that period.

Respectfully submitted,

Al Mezin, Chair
The Civil Service Superannuation Board

The Civil Service Superannuation Board

The Civil Service Superannuation Board

Chair

Al Morin
President
Assiniboine Credit Union
(effective February 1, 2008)

Gary N. Coopland
Retired, Vice-President Investments
The Great-West Life Assurance Company
(until January 31, 2008)

Employee Representatives

Wayne Andon
Civil Service Representative
Retired

Ray Erb
Civil Service Representative
Manitoba Government
& General Employees Union

Monica Girouard
Civil Service Representative
Manitoba Government
& General Employees Union

Ryan Wiebe
Manitoba Hydro Representative
Manitoba Hydro-Electric Board

Employer Representatives

Tom Bleasdale
Retired
Assistant Deputy Minister of Labour
until January 31, 2008)

Gabriel Forest, f.c.a.
Chartered Accountant

Carmele Peter
Solicitor
Aikins, Macaulay & Thorvaldson

Dr. G. Les E. Ullyot
Retired Family Physician

Merv Worden
Actuary
Worden Actuarial & Benefits Consulting Ltd.
(effective February 1, 2008)

* Gary Coopland, as Chair, and Tom Bleasdale, as Government appointee, served on the Board until January 31, 2008, at which time they were replaced by Al Morin and Merv Worden respectively.

Management

Bruce Schroeder, General Manager

Allen Borle, Director, Finance and Investment Communications & Management Services
Robert Derksen, Director, Communications and Client Services
Dawn Prokopowich, Director, Client Services Administration
Robert Riddell, Director, Management Information Systems

Lindsey Fuller, CFA, Chief Investment Officer
Ellement and Ellement, Consulting Actuary

Standing Committee Members

Investment Committee

Members of the Investment Committee are appointed by the Lieutenant Governor in Council based on their investment expertise, legislative requirements or, in the case of the employee representative, elected by the employee representatives of the Board.

Chair
Peter G. Munro*
Executive Vice-President, Chief Investment Officer,
The Great-West Life Assurance Company

Dick Archer*
Retired, Executive Vice-President Investments,
IGM Financial Inc.

Ewald Boschmann^
Deputy Minister of Finance,
Province of Manitoba
(until June 22, 2007)

Richard Brownscombe*
President, Montrose Mortgage Corporation Ltd.
(effective September 18, 2007)

Gary N. Coopland^
Chair,
The Civil Service Superannuation Board
(until January 31, 2008)

Charlie Curtis*
Retired, Deputy Minister of Finance,
Province of Manitoba

Ray Erb^
Civil Service Representative

Diane Gray^
Deputy Minister of Finance,
Province of Manitoba
(effective February 1, 2008)

Al Morin^
Chair,
The Civil Service Superannuation Board
(effective February 1, 2008)

Bruce Schroeder^
General Manager,
The Civil Service Superannuation Board

Stan Susinski*
Retired, Chief Investment Officer,
Alberta Finance

The Investment Committee also manages the assets of the Manitoba Hydro Employer Fund and three Centra Gas portfolios. Manitoba Hydro appointed the following person as their representative to those committees in conjunction with the above members.

Vince Warden
Vice-President, Finance and Administration,
CFO,
Manitoba Hydro-Electric Board

* Appointed based on investment expertise
^ Required by legislation

Finance and Audit Committee

Chair
Gabriel Forest, f.c.a.
Employer Representative

Monica Girouard - Employee Representative
Carmele Peter - Employer Representative

Compensation Committee

Chair
Ray Erb
Employee Representative

Wayne Andon - Employee Representative
Dr. G. Les E. Ullyot - Employer Representative

The Civil Service Superannuation Board

The Board has the fiduciary responsibility for the administration of the Plan and management of the investment funds in the best interest of all Plan members and beneficiaries. It is also responsible to:

- Ensure that staff fulfil the investment and administrative obligations set out in the Act and comply with the requirements of both the Pension Benefits Act of Manitoba and the Income Tax Act
- Delegate the day-to-day management to the General Manager and staff
- Provide overall direction and approval of policy items

These duties are vested in four members that are elected by participating employees, and five members including a chair that are appointed by Government. The Board meets 10 to 12 times per year.

As the Plan trustee, the Board is required to:

- Manage The Civil Service Superannuation Fund (Fund) in accordance with the rules of the Plan, governing legislation, and common law in the interest of Plan members and their beneficiaries
- Obtain an actuarial valuation every three years
- Regularly review its investment policy
- Obtain an independent audit each year
- Prepare an Annual Report

The day-to-day management of investment assets and delivery of pension and insurance benefits is accomplished by a dedicated and diverse team consisting of 51 staff members.

Your Pension Plan

Your Plan is a "defined benefit" plan which means that your pension is based on a formula that provides pension, disability, death and termination benefits for all eligible members. The formula is based on your years of service and average salary. Being a defined benefit plan means that a fixed percentage of salary is contributed yearly by participating members. While some employers presently match employee contributions, others are obligated to fund their share of benefits paid in the future.

The amount of pension a member will receive is not directly related to investment returns. Good investment returns are necessary to secure the Fund's ability to continue to meet its current and future obligations to pay benefits, and are the major contributor to surplus.

Your Plan allows for retirement after age 55 assuming the member has at least ten years of qualifying service. Unless the person is age 60 or older, or has achieved the Rule of 80 (age plus service), there is a reduction for early retirement. Members who reach age 65 may receive a pension providing they have at least one year of service.

All employees who are employed full time are required to join the Plan. Seasonal and part-time employees are required to join after meeting an earnings test (when they have earned 25% of the Yearly Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan in each of two successive calendar years).

Highlights

		2007 (*)	2006 (*)
Financial	Rate of Return on Investments	3.91%	12.85%
	Investments at Market Value	3,973,775	3,836,359
	Net Investment Income	128,026	113,716
	Current Period Change in Fair Value of Investments	(3,366)	280,247
	Employee Contributions	92,374	100,844
	Employer Payments	122,480	111,803
	The Province of Manitoba Unfunded Pension Liability Trust Account	330,740	274,117
	Pension Payments	230,630	211,617
	Refunds and Transfers	29,692	25,490
	General Expenses - Net	1,556	1,614

* $Thousands unless otherwise noted

		2007	2006
Membership	Non-Retired Members	30,296	30,005
	Retired Members and Other Recipients	14,812	14,101
	Total Members	**45,108**	**44,106**

Other Plans Under Administration	Manitoba Telecom Services Inc.^	6,369	6,446
	Money Purchase Accounts Plan	1,670	1,574
	Centra Gas^	872	888
	Winnipeg Child and Family Services^	366	412
	MLA's^	119	119
	Legislative Assembly Pension Plan	64	33
	Total Membership (all Plans)	**54,568**	**53,578**

^ Active and Retired

Message from the Chair

Gary Coopland

On behalf of the Board, I am pleased to present the 2007 Annual Report, which will be my last following 14 years as Chair of The Civil Service Superannuation Board (Board).

In my very first message to the membership in 1995, I stated that The Civil Service Superannuation Fund (Fund) was committed to providing above average investment returns consistent with a moderate level of risk and superior service to its members. We have not been without our challenges over the years as we have had to contend with the change in the millennium, the catastrophic impact of 9-11, SARS, mad cow disease, and more recently the war in Iraq and a strong Canadian dollar. Despite the volatility and uncertainty of the financial markets, the Board's team of Investment professionals have been able to consistently perform at a level that leaves the Fund in a favourable financial position. Throughout these challenges, the Fund's assets have been well managed through diversification and prudent management of investment risk that helps to reduce the impact of such volatility. Over the years I have witnessed the Fund evolve and grow from having $1.5 billion in assets under administration in 1994 to just under $4 billion in 2007. It is this type of growth and success that has permitted the Plan to continue to serve the retirement interests and provide financial security to its membership.

For 2007, the Fund rate of return of 3.91% outperformed the benchmark of 2.26%. This translates into approximately $63 million more than what we would generate by meeting the benchmark. Although this rate of return did not meet the projected actuarial requirement (6.5% for 2007), the Fund does plan for years where we are unable to meet or exceed target returns. In the pension industry we tend to measure performance over a longer time frame, similar to how you might manage your personal investments. In comparison, in 2006 we were under our benchmark for the rate of return but managed to almost double the rate established by the actuarial assumptions. Through prudent planning, portfolio diversity and solid long-term performance, the years we exceed the rate that our actuary determines is required to meet future pension obligations, we are able to offset the impact of lower returns to ensure the continued long-term financial stability of the Fund.

The long-term success of the Fund's investments has played a significant role in the Fund's evolution and growth over the years. In addition to offsetting years of poorer performance, these favourable returns can also lead to pension surpluses that allow the opportunity for plan improvements. Over the years we have been fortunate to enjoy investment returns that have contributed to benefit enhancements such as using the best five years of pensionable earnings during a member's career to calculate pension benefits and the pension formula increase in 2000.

In regards to my comments on the commitment to provide superior service to the Fund's members in my first message, this is an area that is not affected by the volatility of the financial markets. If there has been one constant during my tenure as Board Chair, it has been the commitment to excellence in benefits administration. Technology has greatly enhanced service delivery over the years. With members becoming more knowledgeable and taking a greater interest in their Plan, the Board has evolved to meet their demand for more information, details and active involvement. Perhaps the most significant advancement in service delivery has been the implementation of the Online Pension Estimator in 2002.

As one of the first of its kind in Canada, the Estimator has enabled members to actively participate in their retirement planning in the comfort of their own homes with up-to-date data that provides the same accuracy as estimates run at our office. Our membership is more computer literate these days as evidenced by the increasing usage of this service. Since its implementation, pension estimates run each year have steadily increased from 24,431 in the first year to 91,897 in 2007. The launch of the Pension Estimator has also opened the door to expanded online services for our pensioners and holds great potential for

future enhancements to service delivery for our membership.

It is a time of transition for the Fund, with Bruce Schroeder taking over as the General Manager in 2007, and the appointment of Mr. Al Morin as the new Chair of the Board effective February 1, 2008. In reflecting upon my appointment back in 1994, I was fortunate to inherit a committed, hard-working staff of dedicated employees that made my job as Chair that much easier. It is this experience and dedication that will ensure the Fund is well positioned for years to come to continue to provide the superior pension and benefit program that you have come to expect. It has been my pleasure to be a part of one of the premier defined benefit pension plans in Canada and I would like to extend my sincere appreciation to the Board members, management, staff and the stakeholders that have made this such a memorable experience. It will be with great interest that I continue to follow what I am sure will be continued future success for the Fund and its membership.

Message from the General Manager

Bruce Schroeder

The Civil Service Superannuation Board (Board) is committed to providing excellent service in a cost-effective manner. We are continually trying to enhance our service to our members by providing innovative solutions to improve our processes. In the past, we have had numerous requests for earlier access to retiree T4A's at the end of the year. Beginning with the 2007 tax year, pension recipients now have the ability to access their T4A's via our secure web site. Not only does this enhance service to our members but it will also result in a significant cost saving over time. In 2008, we will continue to search for other ways of using Internet based services to provide faster and more secure access to information for our membership.

In 2007, for the first time in the history of the Fund, the number of retirements exceeded 1,000. This is an increase of approximately 20% from 2006. The retirement graph contained in this report shows a steady increase in the number of retirements for the past five years. We believe that the larger than average increase in retirements is the beginning of a trend which we will see repeated in coming years. This is largely because of the sheer number of members that are currently eligible to retire. We are prepared and have sufficient staff resources to handle the increases. Also, from the plan liability perspective, we are well prepared. Through past valuations, the Board has prudently created reserves that can be drawn upon if needed to compensate for the expected increase in the number of retirements and corresponding increase in pension payments.

In 2007 the plan's assets generated a return of 3.91% which exceeded our benchmark return of 2.26%. Although the return did not achieve the actuarially required rate of 6.5%, the plan remains in good shape going forward. A pension plan is a long-term commitment, so while investment returns may not meet actuarial requirements in any given year, our objective is to provide stable returns that exceed actuarial requirements over the long-term. Over the last ten years investment returns have exceeded the benchmark, 9.01% versus 7.46%, and have also exceeded the average actuarial required rate of 6.82%.

Through the valuation process, which takes place every three years, the Board examines multiple scenarios and has created reserves for years such as this year when investment returns are lower than the required rate. These reserves can be drawn upon to stabilize the Fund and enable the plan to maintain current benefits. Going forward, a valuation is required for the year ending December 31, 2007. Our actuary is currently in the process of his review and will provide recommendations for the Board's consideration by the fall of 2008. The Board will continue to maintain a prudent outlook and provide the appropriate direction to preserve current benefits.

Mr. Gary Coopland, the Chair of The Civil Service Superannuation Board since 1994, retired from the Board effective February 1, 2008. Over the time Mr. Coopland served as Chair, the assets of the Fund have grown from $1.5 billion to $3.9 billion. During Mr. Coopland's tenure, we have seen our average investment return consistently exceed our benchmark as well as the actuarially required rate of return. We have also enjoyed plan improvements that have benefited members and their beneficiaries. On behalf of the Board and staff, I would like to thank Mr. Coopland for his service and wish him the very best.

I would also like to take this opportunity to welcome Mr. Al Morin as the new Chair of The Civil Service Superannuation Board. Mr. Morin is currently the President of Assiniboine Credit Union and brings a wealth of knowledge and experience to the position of Chair. I look forward to working with Mr. Morin in the years to come.

I would like to thank the staff of the CSSB for their dedication and hard work. Thanks also to the Board for their guidance and commitment.

Investments

Policies and Procedures

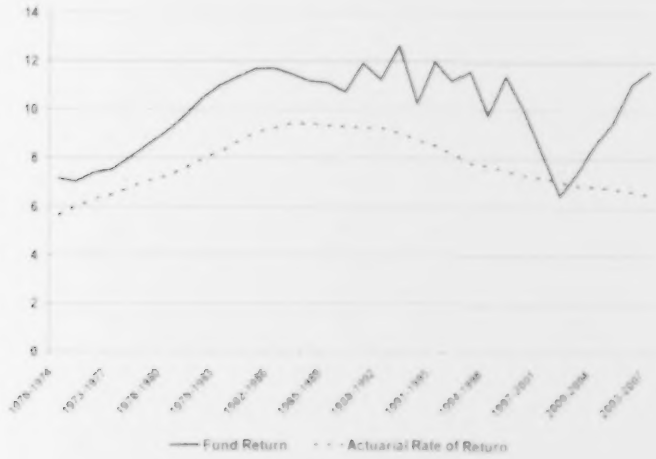
The Fund's Statement of Investment Policies and Procedures (SIP&P) guides the investment decision-making process. This document is created by independent consultants and matches the Fund's assets with its liabilities, now and into the future. Upon its approval by the Board, this document is put into effect and is monitored for compliance. The SIP&P includes such things as appropriate asset mix limits, investment grade quality, holding limits, investment objectives, valuation procedures and investment management structure.

> ***"...Fund assets are diversified among the various asset classes..."***

Asset mix is the single most important factor in determining pension fund performance. Different risk elements relating to market volatility and potential returns are factored into an investment decision. Investments that produce lower returns are generally a result of lower risk or volatility. In order to optimize returns and reduce investment volatility, Fund assets are diversified among the various asset classes and across the world's economic regions.

Long-term Success of Investment Policy

The ultimate success of the Fund's investment policy is measured by how well it meets the long-term obligations for its members. An Actuarial Valuation on the Fund, which is conducted every three years, is the best way to measure this obligation. With the exception seen in 2002, the Fund's five-year moving rate of return has exceeded actuarial requirements consistently over the past 30 years. Even in 2002 when the Fund's rate of return may have been below required levels, it was one of the best performing pension funds in Canada. The chart below displays how well Fund performance has met its test.



Governance

Once again, the Board engaged an audit firm to ensure that the methodology employed in calculating the Fund rates of return conformed with the standards recommended by the Institute of Chartered Financial Analysts. As in prior years, the Board received an unqualified audit opinion.

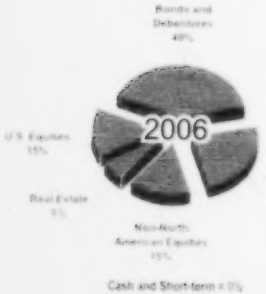
The Board and sub-committees regularly receive management-certified compliance reports and informational material to assist with oversight requirements. In addition, the Board reviews and formally approves the minutes of all sub-committee meetings.

Policies and procedures that continue to guide or impact investment decisions include:

- Statement of Investment Policies and Procedures
- Investment Manager Mandates
- Proxy Voting Policy and Guidelines

Fund Investments

Investment Policy Normal Allocation



Contractual Investments

- Continued to underweight the bond portion of the Fund
- Maintained low cash reserves

Equity Investments

- Continued to underweight U.S. equities
- Continued exposure to emerging markets
- Continued to overweight Canadian equities, particularly oil and gas, through the Board's private operating company, Superman Resources Inc.
- Overweighted real estate

"...markets do have a tendency to smooth out above and below average returns over time.."

2007 produced significantly lower returns than the Fund enjoyed over the prior four years. Several years of aggressive lending over a wide range of financial instruments finally began to unravel as increasing numbers of borrowers experienced trouble meeting their obligations. The extent of the leverage built into the financial system, focused on the U.S. and Europe, was far greater than most market participants understood. The result was that significant components of the financial markets effectively ceased to function and numerous financial institutions worldwide suffered significant losses.

Commodities continued to catch the headlines. In addition to record high oil and coal prices, agricultural commodity prices also increased significantly. This general strength in commodity prices has carried over into 2008 as world demand continues to be strong, in spite of a slowing U.S. economy. A number of factors have contributed, among them, changing weather patterns in some major agricultural exporting regions, ongoing strong growth in developing countries, led by China, and low world reserves on many edible commodities.

The Canadian dollar continued to appreciate against the U.S. dollar, led by high commodity export prices, the takeover of several large Canadian companies, such as Inco and Alcan (Canadian dollars were bought to pay for the shares), and by significant shifts into Canadian dollar assets by foreign investors.

The Fund benchmark, or expected return, was 2.26%, down considerably from 2006's 13.01%. This was not exactly unexpected as the returns for 2003 to 2006 were unusually high, and markets do have a tendency to smooth out above and below average returns over time. Despite a lower return environment, active management of Fund assets resulted in a return of 3.91%, or 165 basis points better than the benchmark. This translates into approximately $63.6 million of value added.

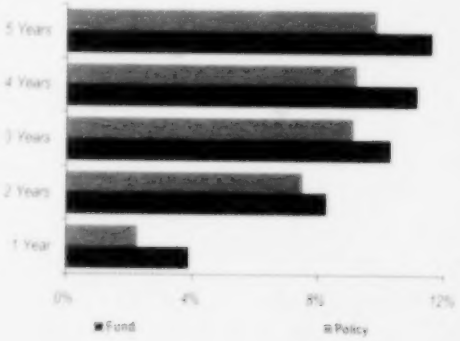
The major contributors to the outperformance were strong real estate returns, 19.50%; a continued large exposure to emerging market equities, 12.50% return; positive Canadian equity returns, 6.88% and a recovery in natural gas prices elevated the return on the Fund's wholly owned oil and gas company, Superman Resources to 17.06%. Subtracting from performance were positions in U.S., Japanese, and European equities, largely due to the adverse foreign exchange effect from the strong Canadian dollar.

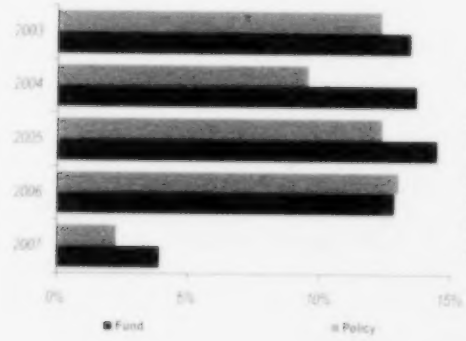
Calculation Methodology

The returns are time-weighted rates of return before fees and expenses. They are calculated in accordance with the methodology recommended by the CFA Institute and have been audited by Deloitte & Touche LLP.

Total Fund

While absolute returns were down considerably from prior years, the 3.91% Fund return was considerably higher than the expected rate of return of 2.26%. Over the past five years, the Fund has generated a return of 11.60%, far above the benchmark return of 9.83%. These returns are also comfortably in excess of the actuarial return. The graph on the right illustrates the outperformance of the annualized return over the Fund policy over the past five years. The graph below shows each individual year's performance.

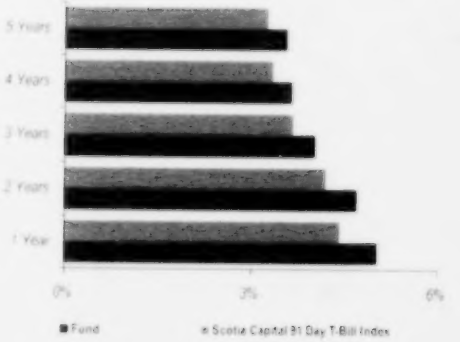




The strong performance in 2007 was due to excellent returns on real estate, Canadian equities, and emerging markets, all areas where we overweighted our allocation. Our oil and gas company also did very well. Bonds did not perform well, and U.S., Japanese, and European equity returns suffered from the strength in the Canadian dollar.

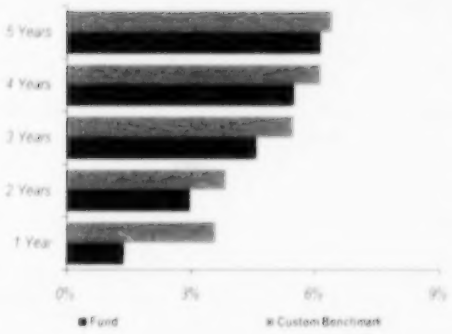
Cash and Short-term

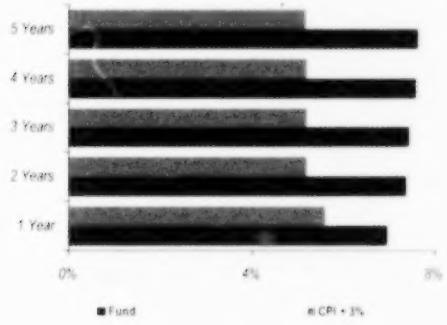
The money market portion of the Fund generated a return of 5.04%, which resulted in a 61 basis points (bps) outperformance over the Scotia Capital 91 Day T-Bill Index.



Bonds and Debentures

The bond portfolio underperformed significantly during the year, returning 1.39% versus the 3.61% benchmark. This underperformance was due primarily to the portfolio having an overexposure to non-government bonds, which underperformed government bonds significantly. As conditions in the financial markets normalize over time, we expect the portfolio will again outperform the benchmark.



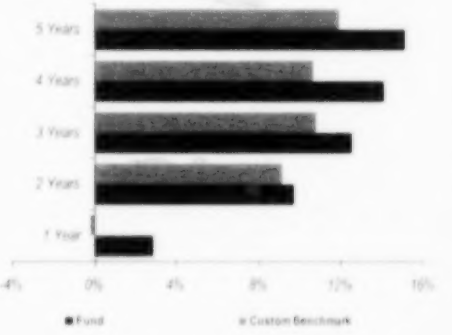


Real Return

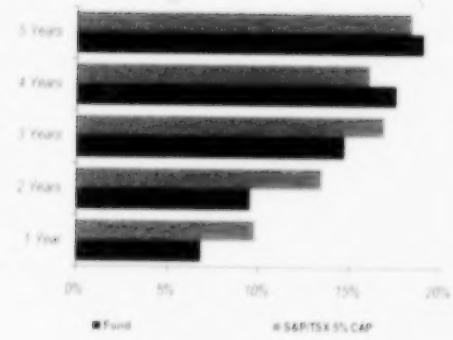
Products such as Index-Linked mortgages remain a designated vehicle to fund the Cost-of-Living Account for future benefits. Real return investments earned 6.97% in 2007 compared to its benchmark of 5.60%.

Total Equity

The indices used to measure the performance of the Fund's stock portfolio are Canada's S&P/TSX 5% Capped Index (S&P/TSX 5% Cap), the U.S. Standard & Poor's 500 Index (S&P 500) and The Morgan Stanley Capital International Index for Europe, Australia and Far East (MSCI EAFE). Based on the Fund's SIP&P, an assumed equity mix of 24% Canadian, 15% U.S. and 15% EAFE countries (prior to April 1, 2005 - 24% Canadian, 16% U.S. and 9% EAFE) for total Fund assets is considered normal. As a percentage of total equity investments, this translates into 44% Canadian, 28% U.S. and 28% EAFE countries. This is referred to as the benchmark for total equities.



The Canadian equity market benchmark return was dominated by a handful of large companies, most of which we did not own due to concerns about overvaluation. Total Canadian equities generated a 6.88% return versus the 9.84% benchmark. Led by a strong performance from our internal U.S. equity team, U.S. equities returned (9.00)% versus the (10.55)% benchmark. Non-North American equities delivered 4.38% versus the (5.54)% benchmark. This outperformance was dominated by our emerging markets positions.



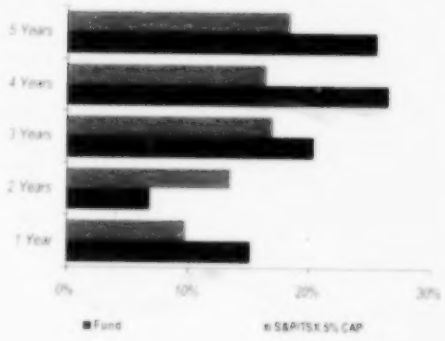
Canadian Equity

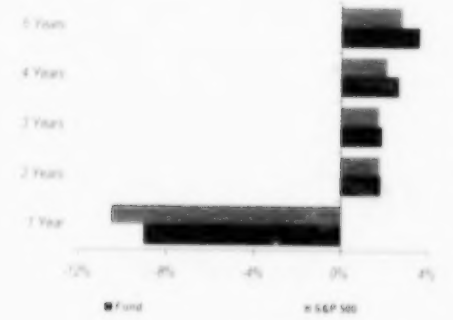
Canadian equities, buoyed by strong commodity prices, delivered good returns during 2007. Our internal, value driven style, did not match the S&P TSX index returns, as we sold into strong markets that continued to rise. Buoyed by a recovery in natural gas prices, the Fund's oil and gas company, Superman Resources, produced a respectable 17.06% return. This alone was not enough to offset the underperformance of the public equity portion.

Private Equity

Superman Resources Inc., in addition to generating a 17.06% return, added additional reserves in excess of those produced during the year. Further exploration and development of our properties is ongoing and we expect further reserves to be added.

We have participated in two private equity funds, one focused on Manitoba based investments and the other with a Manitoba based investment team. Both funds have been successful in originating a strong flow of investments over the years.



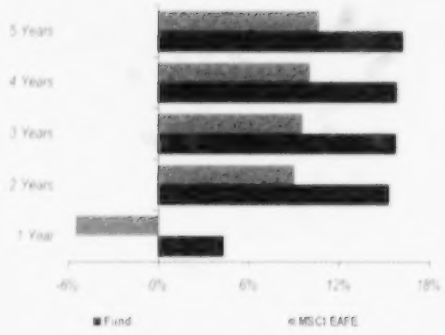


U.S. Equity

The Fund's internal team, which manages two-thirds of the position, outperformed the benchmark by 3.54%. The external manager underperformed by 2.54%.

Non-North American Equity

The Fund's combined Non-North American equities posted returns of 4.38%, outperforming the MSCI EAFE index by 992 bps. Nearly 57% of the equity portion of the Fund is in emerging markets where Investors Group (Hong Kong) and Somerset/Lloyd George returned 14.88% and 9.07% respectively. One of the Fund's external EAFE managers, Marathon Asset Management, exceeded its benchmark by 416 bps while the other, Pyrford International plc, underperformed by 25 bps. The internally managed International portfolio added 569 bps over the EAFE benchmark. Pyrford was terminated at the end of 2007 and the funds were divided between Marathon and the internally managed international and U.S. portfolios.

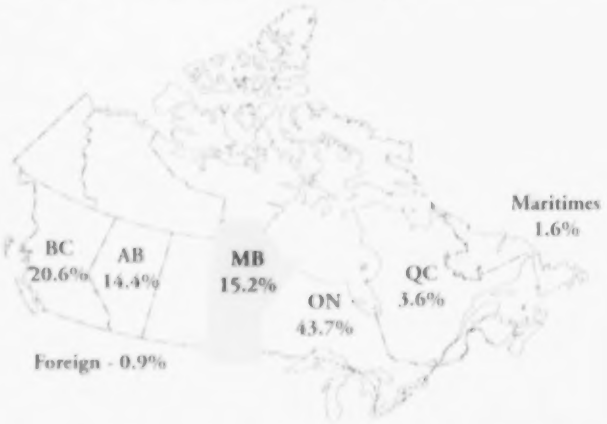


Real Estate

2007 again saw Real Estate deliver strong returns, producing 19.50% versus a 16.07% benchmark. Going forward, we expect more modest returns from this asset class. Our portfolio benefited from very positive returns from several development projects. Development on our first international investment, a residential development in Tokyo, is scheduled to be completed on time and on budget in November 2008.

The portfolio continues to be diversified by property type and location with investments from coast to coast. Manitoba investments represent over 15% of portfolio assets and include several major properties such as Pembina Crossing Shopping Centre, Crossroads Station Shopping Centre and the office buildings at 155, 175 and 185 Carlton Street in downtown Winnipeg.

Distribution by Geographic Location



Strategy and Outlook

We expect further aggressive lowering of administered short-term rates and expansion of money supply. For institutional investors, government bonds are not particularly good value at current levels, and concerns about the inflationary impact of aggressive money supply expansion are not without merit, but will likely be a 2009 and later issue. If companies are able to maintain levels of earnings around current levels, and short-term interest rates fall, then equities represent reasonable values at current levels. We are maintaining our fully invested position with equities at the upper end of our permitted ranges. Within equities, we are maintaining our overweight to emerging markets as we continue to expect better returns over the long-term from these markets. We are also shifting a portion of our international weighting to the U.S. markets where we anticipate better relative performance.

We continue to examine potential real estate opportunities, but are in no hurry to add to the portfolio, unless we find particularly attractive projects. Real estate is currently a seller's market and we expect patience will be rewarded.

We are hopeful that attractive opportunities will develop in the oil and gas industry, which we will attempt to take advantage of through our wholly owned company, Superman Resources Inc. Considering that the years 2003 to 2006 produced significantly above average returns, we are anticipating a period of somewhat lower returns for the foreseeable future.

Diversification, Growth and Stability

Fund Investments

	2007 (*)	2006 (*)
Contractual Investments		
Cash and Short-term	**34,985**	57,409
Bonds and Debentures	**1,190,472**	1,160,337
Mortgages	**37,846**	39,816
Equity Investments		
Canadian Equities	**1,147,945**	1,108,151
U.S. Equities	**417,340**	453,856
Non-North American Equities	**758,188**	671,165
Real Estate	**386,999**	345,625
Total Investments	**3,973,775**	3,836,359

* $Thousands

Membership

Member Services

The Board offers the following services to members and their families, financial planners, solicitors, etc.:

1. Individual Meetings

Members can meet with Board staff in Winnipeg and rural areas to discuss pension and insurance benefits. Laptop computers and the Internet allow for services similar to those provided at the Board office in Winnipeg to be offered in rural areas like Brandon and Dauphin. Members are encouraged to bring anyone they wish to these meetings, like a spouse or financial planner.

2. Pre-Retirement Planning Seminars

The pre-retirement planning seminar program is a one-day session designed for employees who are beginning to plan for retirement. They are presented in major centres throughout Manitoba for groups of 15 to 50 people, and members are encouraged to bring their spouses. The focus of these seminars is on pension and insurance benefits offered through the Board, although the presentation and course materials also include information on Federal benefits, estate planning, use of leisure time, and health considerations.

3. Employee Pension and Insurance Seminars

The employee information seminars focus on pension and insurance benefits, such as eligibility, entitlement to benefits, family protection, disability, death, marriage separation, etc. They are presented to groups of 15 to 250 employees of the Government and its related boards, commissions, and agencies, and last for two to three hours.

4. Personal and General Inquiries

Board staff are available to answer questions by way of phone and written communication.

5. Electronic Communications

The Board has a website and online services, allowing members to view general information and obtain detailed personalized information at their convenience.

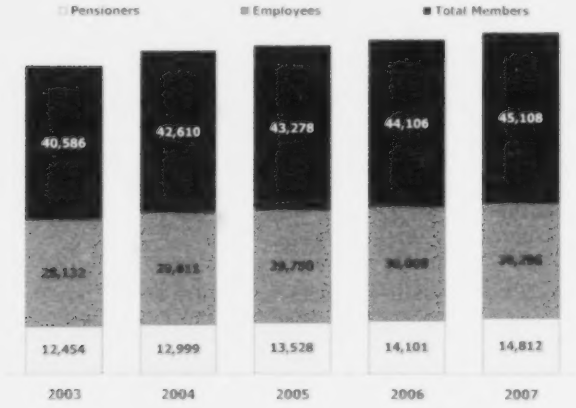
Highly qualified staff are available to meet your information needs with respect to enrolment, retirement, disability, termination and pension projections for estate and retirement planning.

We ask that you have your personal identification number (PIN), social insurance number (SIN), or employee number ready when calling the office and that you make an appointment prior to visiting to assist us in serving you better.

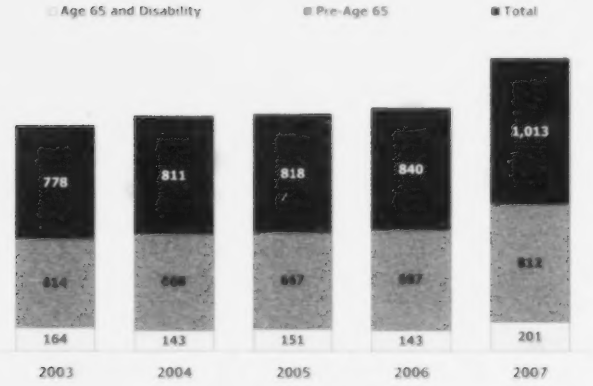
Members/Retirements

- Total members increased by 1,002 to 45,108 during 2007
- Employees/former employees participating in the Fund increased by 291 to 30,296
- Pensioners/beneficiaries increased by 711 to 14,812

Total Members



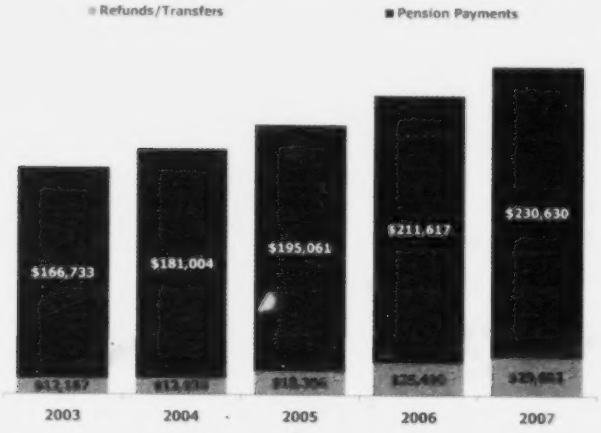
Retirements



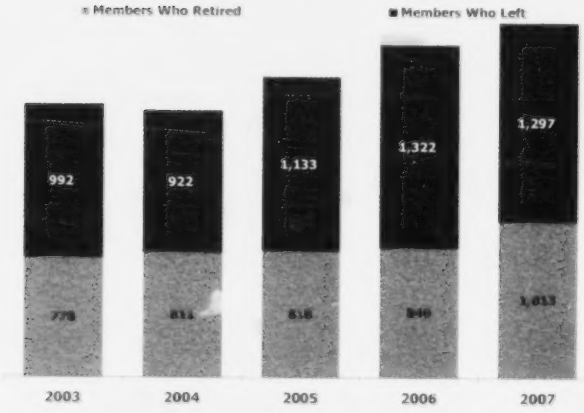
Paying Your Benefits

- 14,812 pensioners/beneficiaries were receiving pension benefits at the end of 2007
- $230.6 million was paid in pensions

Payments from the Fund (Thousands)



Former Contributors



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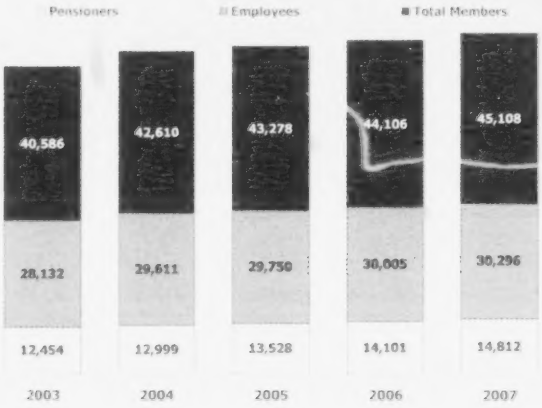
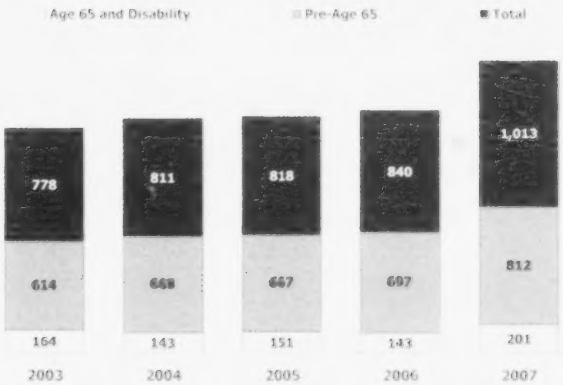


Retirements



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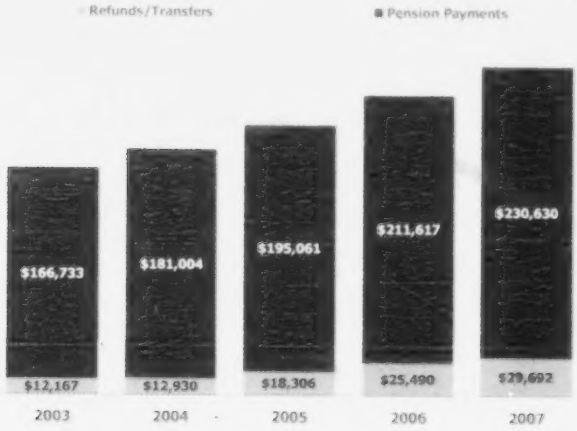


Former Contributors

Employees/Former Employees

The distribution of employees/former employees by employer as at December 31, 2007 was as follows:

Non-Matching Employers	Males	Females	Total
Province of Manitoba Civil Service	6,764	7,602	14,366
Manitoba Hydro-Electric Board	3,982	1,339	5,321
Manitoba Public Insurance	767	1,009	1,776
Red River College	544	611	1,155
Liquor Control Commission	301	274	575
Addictions Foundation of Manitoba	79	229	308
Assiniboine Community College	127	173	300
University College of The North	96	154	250
The Legal Aid Services Society of Manitoba	40	87	127
Manitoba Centennial Centre Corporation	38	14	52
Teachers' Retirement Allowances Fund Board	9	26	35
Communities Economic Development Fund	10	5	15
The Council on Post-Secondary Education	4	8	12
Manitoba Horse Racing Commission	2	2	4
Diagnostic Services of Manitoba	2	0	2
Regional Health Authorities			
Winnipeg	18	205	223
Brandon	51	160	211
Central	13	88	101
Assiniboine	7	84	91
Parkland	16	58	74
Interlake	9	63	72
South Eastman	3	25	28
Nor-Man	1	26	27
North Eastman	2	21	23
Burntwood	1	12	13
Total Non-Matching	**12,886**	**12,275**	**25,161**

Matching Employers	Males	Females	Total
Manitoba Lotteries Corporation	584	516	1,100
Manitoba Housing Authority	172	138	310
Manitoba Agricultural Services Corporation	72	87	159
Manitoba Crop Insurance Corporation	111	13	124
Manitoba Government and General Employees Union	34	40	74
Manitoba Hydro Utilities Service	55	12	67
Child and Family All Nations Coordinated Network Inc.	10	52	62
The Civil Service Superannuation Board	27	28	55
Gaming Control Commission	26	26	52
Travel Manitoba	11	28	39
Food Development Centre	13	14	27
Manitoba Floodway Expansion Authority Inc.	14	12	26
Dairy Farmers of Manitoba	8	12	20
Industrial Technology Centre	14	6	20
Manitoba Pork Marketing Co-op Inc.	11	4	15
Manitoba Film and Sound Recording Development Corporation	2	8	10
Manitoba Pork Council	4	6	10
Manitoba Arts Council	0	6	6
Manitoba Chicken Producer Board	1	4	5
Sport Manitoba	4	1	5
Crown Corporations Council	2	2	4
Manitoba Cattle Enhancement Council	0	3	3
Manitoba Turkey Producers	3	0	3
Paletta & Company Hotels	3	0	3
Venture Manitoba Tours Ltd.	3	0	3
Economic Innovation and Technology Council	0	1	1
Total Matching	**1,184**	**1,019**	**2,203**

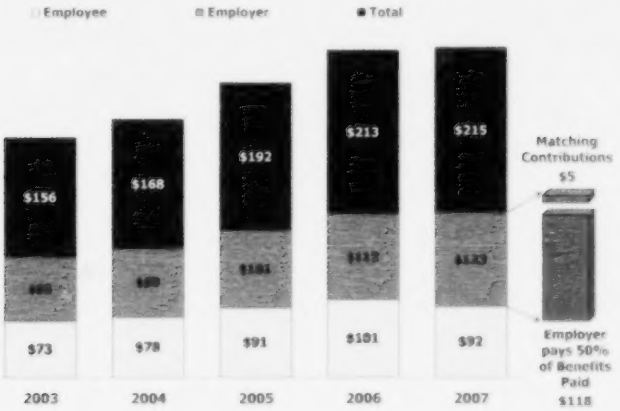
Other	Males	Females	Total
Deferred Pension Accounts	1,187	1,424	2,611
L.T.D. Recipients	48	132	180
Manitoba Reciprocal Agreements	83	58	141
Total Other	**1,318**	**1,614**	**2,932**

Total (Non-Matching, Matching, Other)	**15,388**	**14,908**	**30,296**

Employee Contributions/Employer Payments

- Employees contributed $92.4 million to the Fund compared to $100.8 million in 2006
- Employers paid $122.5 million to the Fund compared to $111.8 million in 2006
- 89.8% of your contributions fund basic pension and beneficiary benefits
- 10.2% of your contributions are allocated for cost-of-living benefits

Contributions and Payments (Millions)



Employees and Employers share the cost of the plan. Each year employees contribute the following:

- 6% on earnings up to Canada Pension Plan maximum earnings ($43,700 in 2007)
- 7% on earnings in excess of that amount

Employer payments include:

- Approximately 50% of pensions paid and Commuted Value transfers for terminations, marriage separations, and deaths for non-matching employers
- Payments made by matching employers

Cost-of-Living Allowance

- 10.2% of employee contributions and matching employer payments go to a separate indexing account to fund cost-of-living increases (COLA)
- The account funds approximately half the COLA increase while employers pay their share
- Pensioners and beneficiaries receive an annual increase to a maximum of ⅔ of the increase in the Canadian Consumer Price Index (CPI)
- The COLA paid July 1, 2007 was 1.09%

Cost-of-Living Account

The Board has been advised that the Employer Advisory Committee and the Employee Liaison Committee have agreed to transfer the existing surplus from the Basic plan to the COLA Program and is currently awaiting legislative approval.

Funding of Pension Benefits

The Fund's net assets available for benefits are primarily funded by:

- Investment income
- Employee contributions
- Employer payments

These assets are used to finance the payment of the Fund's portion of the basic pension, the indexing benefits, and the employers' share for several matching employers.

The majority of employers are non-matching and defer payment of their share of pension benefits until the benefit is paid.

The Fund consists of two separate accounts:

1. **Basic Benefits Account**

- Finances the Fund's share of the basic pension benefit calculated as at a specific date (i.e. retirement, termination or death)

2. **Indexing Benefits Account**

- Has been specifically established to finance the Fund's share of cost-of-living benefits paid to members
- 10.2% of employee contributions and matching employer payments are credited annually to this account

The cost-of-living benefit payments are limited to the extent that the Indexing Benefits Account is able to finance its share of each increase. Legislation limits the maximum annual cost-of-living adjustment to ⅔ of the increase in the CPI until the account can prefund anticipated adjustments for the next 20 years.

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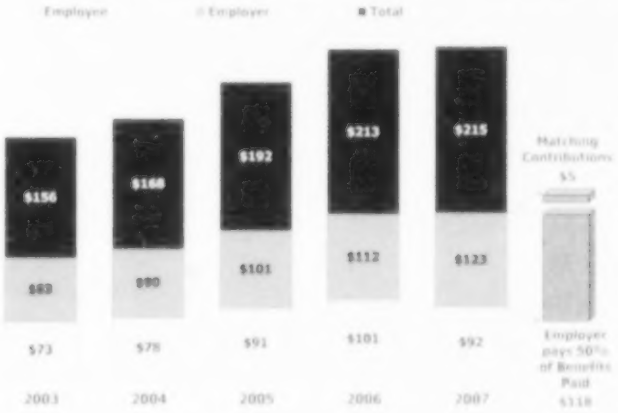

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The net assets available to finance pension benefits, the obligations for pension benefits, and any surplus in the Basic Benefits Account and the funds available to finance future cost-of-living adjustments as at December 31, 2007 are summarized below.

	Fund (*)	Non-Matching Employers (*)	Obligations Total (*)
1. Net Assets Available (Net of Actuarial Reserves)			
Basic Benefits Account	3,120,645	See Note Below	
Indexing Benefits Account	188,230		
Total	**3,308,875**		
2. Actuarial Obligations for Pension Benefits			
Basic Benefits Account (including future benefits)	3,115,317	2,537,622	5,652,939
Indexing Benefits Account	134,500	132,676	267,176
Total	**3,249,817**	**2,670,298**	**5,920,115**
3. Actuarial Position/Funds Available			
Basic Benefits Account	5,328	See Note Below	
Indexing Benefits Account (funds available to finance future adjustments)	53,730		
Total	**59,058**		

* $Thousands

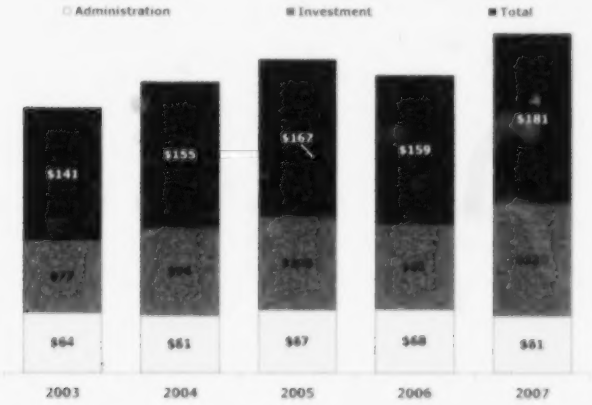
Refer to Notes 5 and 6 of the Audited Consolidated Financial Statements for additional information.

Note: The non-matching employer's portion of the pension liability is unfunded for most employers. Refer to Schedule 2 of the Audited Consolidated Financial Statements for additional information.

Administration and Investment Cost

The Board's annual administration and investment cost per member continues to be one of the lowest in Canada for complex defined benefit plans. The total annual cost per member for 2007 was $181 consisting of $61 for administration and $120 for investment related expenses.

Annual Cost Per Member



Rising investment costs are mainly due to higher transaction costs in Non-North American markets. Investing in markets outside of North America costs more, however, the benefit in the form of good expected returns and diversification oftentimes outweigh the higher expense.

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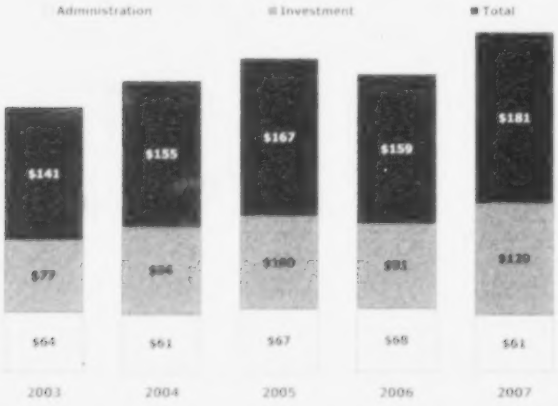

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Five-Year Comparative Statistics

		2003 (*)	2004 (*)	2005 (*)	2006 (*)	**2007 (*)**
Investments	Rate of Return	13.44%	13.71%	14.50%	12.85%	**3.91%**
	Market Value	2,625,553	2,946,144	3,384,202	3,836,359	**3,973,775**
Contributions and Payments	Employee Contributions	72,744	77,755	90,885	100,844	**92,374**
	Employer Payments	83,080	89,725	100,715	111,803	**122,480**
	Total	**155,824**	**167,480**	**191,600**	**212,647**	**214,854**
Payments from the Fund	Pension Benefits Paid	166,733	181,004	195,061	211,617	**230,630**
	Refunds and Transfers	12,167	12,930	18,306	25,490	**29,692**
Expenses	Administrative, net before recoveries from non-matching employers	2,588	2,600	2,888	2,980	**2,737**
	Investment, net	3,142	4,019	4,312	4,035	**5,459**

* $Thousands unless otherwise noted

		2003	2004	2005	2006	**2007**
Membership	Non-Retired Members	28,132	29,611	29,750	30,005	**30,296**
	Pensioners and Other Recipients	12,454	12,999	13,528	14,101	**14,812**
	Total Members	**40,586**	**42,610**	**43,278**	**44,106**	**45,108**
	Refunded/ Transferred Members	992	922	1,133	1,322	**1,297**
	Retirements	778	811	818	840	**1,013**

Financial Information

Management Report

The accompanying consolidated financial statements of The Civil Service Superannuation Fund are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting policies, as stated in the notes to the consolidated financial statements. Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and to safeguard the assets of the Fund. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available up to April 4, 2008.

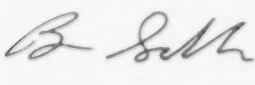
The firm of Ellement and Ellement has been appointed as consulting actuary for the Fund. The role of the actuary is to complete the triennial actuarial valuations of the Fund in accordance with actuarial practice and estimate the obligations for benefits for inclusion in the annual consolidated financial statements.

The Auditor General performs an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The resulting opinion is set out in the Auditors' Report attached to the consolidated financial statements.

Ultimate responsibility for the consolidated financial statements rests with the members of the Board. The Board established a Finance and Audit Committee to meet with Board staff and representatives of the Auditor General. It is the responsibility of the Finance and Audit Committee to review the consolidated financial statements, ensure that each group has properly discharged its respective responsibilities and make a recommendation to the Board regarding approval of the consolidated financial statements. The auditors have full and unrestricted access to the Board and to the Finance and Audit Committee.

The Board has reviewed and approved these financial statements.

On behalf of Management,



Bruce Schroeder
General Manager

Allen Borle
Director, Finance

Report of the Office of the Auditor General on The Civil Service Superannuation Fund

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

AUDITOR'S REPORT

To the Legislative Assembly of Manitoba and
To the Members of the Civil Service Superannuation Plan

We have audited the consolidated statement of net assets available for benefits of The Civil Service Superannuation Fund as at December 31, 2007 and the consolidated statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits of The Civil Service Superannuation Fund as at December 31, 2007 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by

Winnipeg, Manitoba
April 4, 2008

Carol Bellringer, FCA, MBA
Auditor General

Consolidated Statement of Net Assets Available for Benefits

as at December 31, 2007

($) Thousands	2007	2006
Assets		
Investments, Schedule 1, Notes 2(b) and 4	$3,973,775	$3,836,359
Equipment	134	173
Prepaid expenses	208	228
Debt due from the Province of Manitoba, Note 8	1,826	1,826
Receivables	2,773	3,033
Accrued dividends and interest	18,976	16,331
Total assets	**3,997,692**	**3,857,950**
Liabilities		
Accounts payable and accrued liabilities	5,317	3,795
The Province of Manitoba Unfunded Pension Liability Trust Account, Note 12	330,740	274,118
Correctional Officers' Trust Account, Note 9	4,041	3,884
Employer Trust Accounts, Note 10	53,931	51,761
Money Purchase Accounts Plan, Note 11	16,412	14,469
Total liabilities	**410,441**	**348,027**
Net assets available for benefits, Exhibit B	**$3,587,251**	**$3,509,923**

Chairperson of the Board

Chairperson, Finance and Audit Committee

Consolidated Statement of Changes in Net Assets Available for Benefits

for the Year Ended December 31, 2007

($) Thousands	2007 Basic Benefits Account	2007 Indexing Benefits Account	2007 Total	2006 Total
Increase in assets				
Contributions, Schedule 2, Note 1(b)				
Employees	$83,603	$8,771	**$92,374**	$100,844
Employers	121,962	518	**122,480**	111,803
Total contributions	205,565	9,289	**214,854**	212,647
Net investment income, Schedule 3	119,519	8,507	**128,026**	113,716
Current period change in fair value of investments	-	-	-	280,247
Other	74	-	**74**	74
Total increase in assets	**325,158**	**17,796**	**342,954**	606,684
Decrease in assets				
Current period change in fair value of investments	3,366	-	**3,366**	-
Pension benefits paid	214,622	16,008	**230,630**	211,617
Refunds and transfers	29,692	-	**29,692**	25,490
Administrative expenses, net, Note 13	1,556	-	**1,556**	1,614
Transfer to employer trust accounts	382	-	**382**	448
Total decrease in assets	**249,618**	**16,008**	**265,626**	239,169
Increase in net assets	**75,540**	**1,788**	**77,328**	367,515
Net assets available for benefits at beginning of year	3,299,804	210,119	**3,509,923**	3,142,408
Increase in net assets	75,540	1,788	**77,328**	367,515
Net assets available for benefits at end of year, Exhibit A	**$3,375,344**	**$211,907**	**$3,587,251**	$3,509,923

1. Description of Plan

The following description of the Civil Service Superannuation Plan (the "Plan") is a summary only. For more complete information reference should be made to the Civil Service Superannuation Act (the "Act").

(a) General

The Civil Service Superannuation Board (the "Board") and the Civil Service Superannuation Fund (the "Fund") were established under the Act in May 1939. The Board is responsible for administering the Act. The Act defines the basis of funding and the operation of the Plan as a defined benefit plan, which provides pension benefits to employees of the Government of the Province of Manitoba and its agencies participating in the Plan.

(b) Funding

The Act requires that employees contribute 6% of pensionable earnings up to the Canada Pension Plan (CPP) maximum pensionable earnings and 7% of pensionable earnings above that maximum each year. In accordance with the Act, 89.8% of the employee contributions are allocated to the Basic Benefits Account and 10.2% are allocated to the Indexing Benefits Account. The matching employer contribution rate is at 5.1% on pensionable earnings up to the CPP maximum pensionable earnings and 7% of pensionable earnings above that maximum each year.

Under provisions of the Act non-matching employers defer contributing their share of employee pension benefits until they are billed for 50% of the benefit payments processed. However, non-matching employers are not billed for the cost of the pension formula improvement implemented in 2000. Matching employers similarly do not contribute toward the 2000 pension formula improvement.

The Fund's net assets available for benefits are primarily comprised of contributions from employees and matching employers together with investment income. These assets are intended to finance the Fund's portion of the Plan's actuarially determined obligation for pension benefits accruing to employees for service to the date of these financial statements. The non-matching employers' portion of the obligation for pension benefits as shown in Note 5 is unfunded.

One-half of the cost-of-living benefit payments are charged to the Indexing Benefits Account. All other benefit payments are charged against the Basic Benefits Account. The recovery of the non-matching employers' share is credited to the Basic Benefits Account.

The cost-of-living benefit payments are limited to the extent that the amount in the separate Indexing Benefits Account is actuarially able to finance one-half of that payment. Legislation limits the maximum annual adjustment to two-thirds of the increase in Consumer Price Index (Canada) until the Indexing Benefits Account can pre fund anticipated adjustments for the next twenty years.

(c) Pension Calculation

The lifetime pension calculation equals:

(i) 2% of a member's best five-year average pensionable earnings multiplied by pensionable service.
(ii) minus .4% of the average CPP maximum pensionable earnings for the same period multiplied by pensionable service since January 1, 1966.

The lifetime pension is subject to an overall maximum of 70% of the average earnings described in (i) above. Some pensions for members retiring prior to age 60 are subject to an early retirement reduction.

(d) Excess Contributions

On termination, retirement or death, if a member's contributions plus interest (less 10.2% allocated to the Indexing Benefits Account) exceed 50% of the commuted value of the pension for service after December 31, 1984, the excess contributions are payable to the member or the member's estate.

(e) Retirement

A member with ten or more years of qualifying service is eligible to retire at age 55.

A member with one or more years of qualifying service is eligible to retire at age 65.

All members must commence pension benefits no later than the last day of the calendar year in which the member attains 69 years of age.

Eligible members of the Province of Manitoba's Corrections Component may retire as early as age 50.

(f) Disability Pensions

A member with ten or more years of qualifying service is eligible to apply for a disability pension.

(g) Survivor's Benefits

A survivor's benefit is payable to a spouse or eligible survivor(s) of a member who dies with two or more years of qualifying service.

(h) Death Refunds

A death refund is payable to the estate of a pensioner or survivor where such pensions have not been paid to the full extent of the individual's contributions plus interest. In a similar manner, a death refund is payable to the estate of a member where no survivor's pension is paid.

(i) Withdrawal Refunds

Upon application and subject to lock-in provisions, withdrawal refunds are payable when a member ceases to be employed by a participating employer. Members with two or more years of qualifying service may choose to leave their contributions in the Plan as a vested member.

(j) Income Taxes
The Plan is a Registered Pension Trust as defined in the Income Tax Act and is not subject to income taxes.

(k) Money Purchase Accounts Plan
The Board administers and maintains a separate Money Purchase Accounts Plan on a trust basis as provided for in the Act.

2. Significant Accounting Policies

The significant accounting policies are summarized below:

(a) Basis of Presentation
The consolidated financial statements are prepared on a going-concern basis as a separate financial reporting entity, in accordance with Canadian generally accepted accounting principles. They are prepared to assist participants and others in reviewing the financial activities for the fiscal year.

(b) Investments
Investments are recorded at fair value on a trade date basis. Fair values of investments are determined as follows:

Fixed Income
(i) Short-term investments are valued at cost, which approximates market and short term equivalents are valued at market by independent sources.

(ii) Bonds and debentures are valued at market by independent sources.

(iii) National Housing Act (Canada) and other mortgages are valued based upon the present value of future discounted cash flows. Pooled mortgage funds are valued at market by the external manager.

Equity
(i) Publicly traded securities are valued at year end market prices as listed on the appropriate stock exchange.

(ii) Real estate investments are valued at the most recent appraisals or external manager's valuations of the underlying properties.

(iii) Petroleum and natural gas shares are valued based upon the discounted present value of proven petroleum and natural gas reserve information provided by external managers or are reflected at cost until such information is made available.

(iv) Venture capital investments are based on values established by the external managers or at cost where no valuation has been prepared.

(v) Real estate shares include the value of 19 real estate subsidiaries that have not been accounted for on a consolidated basis, but whose value ($250,454) is included in the Consolidated Summary of Investments, Schedule 1.

(c) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the year. Actual results could differ from those estimates.

(d) Foreign Currency Translation

The fair value of investments denominated in foreign currencies is translated into Canadian dollars at the exchange rate in effect at year-end and the resulting change is included in the current period change in fair value of investments. Revenue and expense transactions are translated at the exchange rates prevailing on the dates of the transactions and are included in investment income at the translated amounts.

(e) Equipment

Computer equipment costing less than $15 and all furniture purchases are charged to operations in the year of acquisition. Mid-range computer equipment cost is amortized over 5 years and microcomputer equipment cost is amortized over 3 years.

3. Risk Management

Fair values of investments are exposed to interest rate risk, credit risk and currency risk.

Interest rate risk refers to the impact of interest rate changes on the Fund's cash flows, financial position and income. To limit the exposure to interest rate fluctuation and to obtain the best possible return at acceptable risk, the Board established an investment asset mix policy of 40% fixed income (2006 - 40%) and 60% equity (2006 - 60%).

The term to maturity and related market values of fixed income investments are as follows:

Term to Maturity	2007	2006
Less than one year	$70,174	$68,139
One to five years	309,429	389,250
Over five years	883,700	800,173
Total fixed income investments	**$1,263,303**	**$1,257,562**

Credit risk is the risk of loss from the failure of a counter party to discharge its contractual obligations. The Board limits credit risk by concentrating on high quality securities and adhering to a Statement of Investment Policies and Procedures. The Policy establishes investment ownership limits and acceptable credit ratings. For example, 95% of bonds and debentures must be rated single A or higher.

Currency risk relates to the possibility that foreign currency-denominated investments will change in value due to future fluctuations in foreign exchange rates. The Fund does, from time to time, hedge some of this exposure. As at December 31, 2007 external fund managers had entered into no forward foreign exchange contracts (2006 - $Nil) on behalf of the Fund.

4. Investment in Petroleum and Natural Gas

(a) Investment in Petroleum and Natural Gas

The fair value of the Fund's investment in petroleum and natural gas, through its 74.42% (2006 - 74.42%) share in its subsidiary Superman Resources Inc., as at December 31, is as follows:

	2007	2006
Assets		
Cash	$9,749	$6,281
Accounts receivable	6,773	7,478
Deposit	783	688
Investment - Wembley Resources Ltd.	914	1,110
Property and equipment	85,328	86,377
	103,547	**101,934**
Liabilities		
Accounts payable and accrued liabilities	7,169	7,637
Asset retirement obligation	8,566	8,078
	15,735	**15,715**
Net investment in petroleum and natural gas - cost	87,812	86,219
Market value adjustment	70,624	55,010
Net investment in petroleum and natural gas - fair value, Schedule 1	**$158,436**	**$141,229**

(b) Petroleum and Natural Gas Income

The Fund's petroleum and natural gas income and retained earnings for the year ended December 31, is as follows:

	2007	2006
Revenue		
Oil and gas sales	$40,674	$47,592
Less: Royalties net of Alberta Royalty Tax Credits	7,183	8,631
	33,491	38,961
Interest and other income	333	289
Equity in earnings of Wembley Resources Ltd.	297	274
	34,121	**39,524**
Expenses		
Depreciation and depletion	12,910	16,105
Production	8,066	8,886
Asset administration	2,375	2,717
Accretion	663	413
General and administrative	236	220
Legal and audit	68	72
Directors' expenses	24	23
	24,342	**28,436**
Net income	**9,779**	**11,088**
Retained earnings, beginning of year	141	7,659
Dividends - petroleum and natural gas, Schedule 3	(8,186)	(18,606)
Retained earnings, end of year	**$1,734**	**$141**

5. Obligations for Pension Benefits

(a) Obligation for pension benefits

(i) Basic Benefits Account

In accordance with the Act, an Actuarial Valuation Report is required every three years. The stated purpose of the actuarial valuation is to:

- determine the financial position of the Fund as at the valuation date,
- determine the adequacy of the contributions being received in relation to the portion of the benefits financed by the Fund, and
- provide recommendations as to the future course of action based on the financial position revealed.

The triennial Actuarial Valuation Report on the Fund was completed as at December 31, 2004 by Ellement and Ellement, consulting actuaries.

The actuarial present value of the accrued basic pension benefit obligations, based on service to date, was estimated by the actuary as at December 31, 2007. The principal components of the changes in actuarial present value during the year were calculated and are as follows:

	Basic Benefits Account			
	Fund 2007	Non-Matching Employers 2007	Total 2007	Total 2006
Actuarial present value of accrued basic pension benefit obligations based on service to date, beginning of year	$2,838,612	$2,319,331	**$5,157,943**	$4,634,543
Experience loss/(gain)	-	-	-	-
Benefits accrued	102,477	84,298	**186,775**	206,933
Benefits paid	(122,734)	(108,882)	**(231,616)**	(210,232)
Interest on accrued benefits	183,851	149,958	**333,809**	301,138
Change in actuarial reserves	(12,788)	(10,449)	**(23,237)**	225,561
Actuarial present value of accrued basic pension benefit obligations based on service to date, end of year	**$2,989,418**	**$2,434,256**	**$5,423,674**	$5,157,943

The non-matching employers' portion of the accrued basic pension benefit obligation is unfunded. These non-matching employers defer contributing their share of employee pension benefits until they are billed for 50% of the benefit payments processed. Non-matching employers are not billed for the cost of the pension formula improvement that was effective from September 1, 2000.

The Actuarial Valuation Report as at December 31, 2004 and the estimate at December 31, 2007 were based on the same set of assumptions. These assumptions were chosen for each of the factors that will affect the Fund financially in future years. Each assumption is based on relevant past experience studied over long periods of time to produce more reliable information. In accordance with the methodology set out in the triennial actuarial valuation, the actuary has phased in some additional reserves during the estimate period to provide for possible adverse deviations not explicitly identified in the Valuation.

Significant long-term actuarial assumptions used in the December 31, 2004 Valuation and in the determination of the December 31, 2007 present value of the accrued basic pension benefit obligations were:

Annual rate of return		
(i)	inflation component	2.50%
(ii)	real rate of return	4.00%
		6.50%
Annual salary escalation rates		
(i)	general increases	
	a) inflation component	2.50%
	b) productivity component	0.75%
		3.25%
(ii)	service, merit and promotional increases *	

* the rates used vary by age groupings from a high of 3.0% to a low of 0%

(ii) Indexing Benefits Account

The most recent annual Actuarial Valuation Report on the Indexing Benefits Account was prepared by Ellement and Ellement, consulting actuaries, as at December 31, 2006. The actuarial present value of the accrued indexing pension benefit obligations was estimated by the actuary as at December 31, 2007 and is as outlined below. The actuarial assumptions used are the same assumptions used for the Basic Benefits Account, except the annual rate of return is 6.00%.

	Indexing Benefits Account			
	Fund 2007	**Non-Matching Employers 2007**	**Total 2007**	Total 2006
Actuarial present value of accrued indexing pension benefit obligations, beginning of year	$131,136	$127,397	**$258,533**	$243,123
Experience loss/(gain)	-	-	-	-
Cost-of-living accrual effective July 1	10,929	10,617	**21,546**	22,492
Benefits paid	(16,008)	(13,097)	**(29,105)**	(27,298)
Interest on accrued benefits	8,576	7,888	**16,464**	15,117
Change in actuarial reserves	(133)	(129)	**(262)**	5,099
Actuarial present value of accrued indexing pension benefit obligations, end of year	**$134,500**	**$132,676**	**$267,176**	$258,533

(b) Fund's Asset Valuation

The actuary adjusts net assets available for benefits to smooth investment gains (losses) over five years and to recognize amounts reserved for future indexing benefits.

The actuarial asset values used in the estimate of the Fund's pension obligations were:

	Basic Benefits 2007	Indexing Benefits 2007	Total 2007	Total 2006
Net assets available for benefits, Exhibit B	$3,375,344	$211,907	**$3,587,251**	$3,509,923
Amount reserved for future indexing benefits	(145,000)	(17,320)	**(162,320)**	(164,369)
Adjustment for the actuarial value of assets	(109,699)	(6,357)	**(116,056)**	(113,548)
Actuarial value of net assets available for benefits	**$3,120,645**	**$188,230**	**$3,308,875**	$3,232,006

A reserve of $145,000 is reflected in the adjustment for the actuarial value of assets. This reserve is for the scheduled transfer of the 2004 Basic Benefits surplus, without interest, to the Indexing Benefits Account, subject to legislative approval.

6. Additional Actuarial Information

(a) Total Actuarial Pension Liabilities For The Basic Benefits Account

The actuary determines the actuarial liability for net future service as a component in the actuarial valuation completed for funding purposes. The total actuarial Basic Benefit pension liabilities at December 31, 2007 have been estimated based on service to date and net future service as follows:

	Fund 2007	Non-Matching Employers 2007	Total 2007	Total 2006
Service to date, Note 5	$2,989,418	$2,434,256	**$5,423,674**	$5,157,943
Net future service	125,899	103,366	**229,265**	205,293
Total actuarial pension liabilities	**$3,115,317**	**$2,537,622**	**$5,652,939**	$5,363,236

(b) Basic Benefits Actuarial Position (Fund Only)

The Fund had an estimated going concern actuarial surplus of $5,328 as at December 31, 2007 (2006 Accounting restated estimate – $96,225) in the Basic Benefits Account, after including pension benefit obligations for service to date and for future service actuarial liabilities.

(c) Indexing Benefits Actuarial Surplus (Fund Only)

The funds available to finance future cost-of-living increases in the Indexing Benefits Account were estimated to be $53,730 as at December 31, 2007 (2006 Accounting restated estimate - $53,310).

7. Employer Assets Provided for Pension Obligations

Readers should refer to the latest audited employer financial statements, including financial statements of the Government of the Province of Manitoba and its participating agencies, to determine how employers fund pension obligations.

8. Debt due from the Province of Manitoba

Under Section 24(1) of the Act, the Province of Manitoba assumed an accrued liability of $1,826 for its employees and pensioners as at May 1, 1939. The Province of Manitoba pays semi-annual interest at 4% per annum on this amount.

9. Correctional Officers' Trust Account

Effective November 19, 1996 employees who are members of the Province of Manitoba's Corrections Component are required to contribute an additional 1% of pensionable earnings. These additional contributions are credited to this trust account and are intended to fund the additional pension benefits for eligible employees who may retire as early as age 50 with no reduction for early retirement providing the total of age and qualifying service equals 75 or greater.

10. Employer Trust Accounts

The Fund is responsible for providing enhanced benefits enacted in the 1992 legislation agreed to by the Employee Liaison Committee and the Employer Pension Advisory Committee. These benefits are 100% financed from the Fund's net assets available for benefits. To facilitate this funding, trust accounts were established for non-matching employers participating in the Fund for their share of the actuarial valuation of these future benefit enhancements. Specific contributions from eligible employees are being transferred to the applicable trust account.

11. Money Purchase Accounts Plan

Effective January 2, 1985 a separate Money Purchase Accounts Plan was established to enhance the portability of pensions. Contributors include employees, recipients of superannuation allowances, annuities or pensions payable under the Act, or persons on whose behalf the Board is required or requested to transfer moneys to this Plan. Refunds are made upon written request by the contributor. Administrative costs are recovered by the Board.

12. The Province of Manitoba Unfunded Pension Liability Trust Account

The Balanced Budget, Debt Repayment and Taxpayer Protection Amendment and Consequential Amendments Act came into effect on August 18, 2000. This Act requires the Province of Manitoba (the "Province") to establish a fund and to make payments to the established fund.

Under the terms of a March 6, 2001 agreement between the Province and the Board, the Province established a fund with the Board and the Province is making the required payments to this fund. As well, the Province is making payments to this fund that are related to the Special Operating Agencies unfunded pension liabilities. Payments received by the Board from the Province are held by the Board in trust for and on behalf of the Province and are invested by the Board on behalf of the Province. The payments received are not assets of the Plan and accordingly, they are accounted for by the Fund in the Unfunded Pension Liability Trust Account. This trust account earns investment income at a rate of return equal to the rate of return earned by the Fund. The Board receives an investment management fee for its services. The payments made by the Province to the Board do not reduce the accrued pension benefit obligations of the Fund.

13. Administrative Expenses

	2007	2006
Salaries and fringe benefits	$2,928	$3,226
Professional fees	196	154
Office and administration	1,020	925
	4,144	**4,305**
Less: recoveries from other administered funds regular administration	(1,407)	(1,325)
Fund administrative expenses	2,737	2,980
Less: recoveries from non-matching employers	(1,181)	(1,366)
Administrative expenses, net	**$1,556**	$1,614

14. Managed Investment Funds

The Board acts as investment manager for other funds, which are separate and have been excluded from these financial statements.

The fair values of these other funds under administration on a trade date basis at December 31 are:

	2007	2006
The Manitoba Hydro Pension Fund	$808,384	$784,132
Joint Board of Trustees of The Municipal Employees Benefits Program	448,950	439,019
The Public Service Group Insurance Fund	142,259	139,888
Workers Compensation Board of Manitoba	86,820	80,404
Centra Gas Manitoba Inc.	74,165	73,748
Winnipeg Child and Family Services Employee Benefits Retirement Plan	27,802	30,556
Legislative Assembly Pension Plan	6,807	991
	$1,595,187	**$1,548,738**

The Board recovers its administrative costs for this service by charging an investment management fee, which is deducted from investment management expenses in Schedule 3.

Consolidated Summary of Investments

as at December 31, 2007

($) Thousands	2007	2006
Fixed income investments		
Cash and Short-term		
Government and corporations	$34,985	$57,409
Bonds and debentures		
Pooled fund	1,190,472	1,160,337
Mortgages		
National Housing Act (Canada)	2,079	2,373
Other	1,533	1,972
Index-linked	34,234	35,471
Total fixed income investments	**1,263,303**	1,257,562
Equity investments		
Pooled funds		
Domestic	963,275	932,712
Foreign	1,175,528	1,125,021
Real estate		
Participating bonds	85,981	85,999
Shares, Note 2(b)(v)	301,018	259,626
Petroleum and natural gas shares, Note 4	158,436	141,229
Venture capital	26,234	34,210
Total equity investments	**2,710,472**	2,578,797
Investments, Exhibit A	**$3,973,775**	$3,836,359

Consolidated Schedule of Contributions

For The Year Ended December 31, 2007

($) Thousands	Employers	2007 Employees	Total	2006 Total
Non-Matching Employers, Note 1 (b)				
Province of Manitoba Civil Service	$81,599	$43,646	$125,245	$113,206
Manitoba Hydro-Electric Board	28,771	19,838	48,609	46,471
Manitoba Public Insurance Corporation	4,210	5,314	9,524	8,322
Liquor Control Commission	2,551	1,361	3,912	3,873
Red River College	121	3,643	3,764	3,414
Addictions Foundation of Manitoba	721	745	1,466	1,486
Community Colleges				
Assiniboine Community College	173	925	1,098	900
University College of the North	14	835	849	768
Regional Health Authorities				
Winnipeg	-	810	810	814
Brandon	-	751	751	769
Central	-	383	383	318
Assiniboine	-	313	313	320
Interlake	-	296	296	297
Parkland	-	252	252	276
South Eastman	-	113	113	109
Nor-Man	-	90	90	91
North Eastman	-	85	85	90
Burntwood	-	43	43	52
The Legal Aid Services Society of Manitoba	270	494	764	687
Manitoba Centennial Centre Corporation	276	128	404	374
Teachers' Retirement Allowances Fund Board	97	115	212	266
The Council on Post Secondary Education	87	37	124	82
Communities Economic Development Fund	52	58	110	247
Manitoba Horse Racing Commission	14	12	26	22
Workers Compensation Board	15	-	15	14
Diagnostic Services of Manitoba	-	11	11	2
Total Non-Matching Employers	**$118,971**	**$80,298**	**$199,269**	**$183,270**

Consolidated Schedule of Contributions

For The Year Ended December 31, 2007

($) Thousands	2007 Employers	2007 Employees	2007 Total	2006 Total
Total Non-Matching Employers, continued	**$118,971**	**$80,298**	**$199,269**	**$183,270**
Matching Employers, Note 1 (b)				
Manitoba Lotteries Corporation	2,356	2,676	5,032	4,637
Manitoba Housing Authority	665	693	1,358	1,198
Manitoba Agricultural Services Corporation	771	499	1,270	885
Manitoba Government and General Employees' Union	288	309	597	642
Civil Service Superannuation Board	234	255	489	469
Gaming Control Commission	164	184	348	385
Manitoba Crop Insurance Corporation	166	125	291	556
Manitoba Hydro Utilities Service	118	140	258	183
Travel Manitoba	98	112	210	200
All Nations Coordinated Response Network	88	104	192	-
Manitoba Floodway Authority	89	98	187	173
National Agri-Food Technology Centre	76	84	160	135
Industrial Technology Centre	74	82	156	147
Dairy Farmers of Manitoba	54	60	114	121
Manitoba Development Corporation	52	55	107	50
Manitoba Pork Council	53	50	103	89
Manitoba Pork Marketing Co-op Inc.	44	50	94	95
Manitoba Film and Sound	28	31	59	51
Crown Corporations Council	24	25	49	48
Manitoba Chicken Producers	19	21	40	34
Manitoba Arts Council	11	13	24	19
Manitoba Cattle Enhancement Council	9	9	18	-
Manitoba Turkey Producers	6	7	13	12
Manitoba Hazardous Waste Management Corporation	3	3	6	10
Economic Innovation and Technology Centre	2	2	4	1
Total Matching Employers	**$5,492**	**$5,687**	**$11,179**	**10,140**
Total Employers, Non-Matching and Matching	**$124,463**	**$85,985**	**$210,448**	**$193,410**

Consolidated Schedule of Contributions

For The Year Ended December 31, 2007

($) Thousands	Employers	2007 Employees	Total	2006 Total
Total Employers, Non-Matching and Matching, continued	**$124,463**	**$85,985**	**$210,448**	$193,410
Other				
Employees on loan	1	2	3	12
Employees on workers compensation	-	2	2	5
Reciprocal agreement - transfers in	-	5,027	5,027	17,986
Reciprocal agreement - transfers out	(1,984)	(2,382)	(4,366)	(2,296)
Repayment of contributions previously refunded	-	78	78	95
Contributions based on prior non-pensionable employment	-	3,225	3,225	3,122
Transfer from Money Purchase Accounts Plan	-	437	437	313
Total Other	**(1,983)**	**6,389**	**4,406**	19,237
Total contributions, Exhibit B	**$122,480**	**$92,374**	**$214,854**	$212,647

Consolidated Schedule of Investment Income

For The Year Ended December 31, 2007

($) Thousands	2007	2006
Fixed income		
Short term	$2,425	$4,213
Bonds and debentures	55,865	54,985
Mortgages	2,658	2,590
Total fixed income	**60,948**	61,788
Equity income		
Pooled funds	55,548	56,161
Real estate	15,070	17,948
Petroleum and natural gas shares[1], Note 4	8,186	18,657
Venture capital	8,287	1,231
Total equity income	**87,091**	93,997
Gross investment income	**148,039**	155,785
Less:		
Investment management expenses, net, Note 14	5,459	4,035
Transfer to Province of Manitoba unfunded pension liability trust account	12,030	29,961
Transfer to Correctional Officers' trust account	139	440
Transfer to Employer trust accounts	1,849	6,155
Transfer to Money Purchase Plan accounts	442	1,393
Transfer to Employee future benefits obligations	94	85
	20,013	42,069
Net investment income, Exhibit B	**$128,026**	$113,716

[1] In 2006, includes a final dividend payment from Canadian Pencrown Resources Limited of $51.

The Civil Service Superannuation Board (CSSB), 2008.

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